

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES
OF B & H, INC.)

CASE NO. 8106

O R D E R

On December 24, 1980, B & H, Inc., ("Applicant") filed an application with this Commission requesting authority to increase its sewer service rates by approximately \$7,431 annually, an increase of 45.57%.

On January 9, 1981, the Division of Consumer Intervention in the Department of Law filed a motion to intervene in this proceeding which was sustained. Upon a motion filed at the hearing, the property owners of Brocklyn Subdivision also intervened in this case. A hearing was scheduled for April 30, 1981, at the Commission's offices in Frankfort, Kentucky. All parties were notified and the hearing was conducted as scheduled.

Commentary

B & H, Inc., is a privately-owned and operated sewage treatment system serving 150 customers in Brocklyn Subdivision in Madison County, Kentucky.

Test Year

The Applicant proposed and the Commission has adopted the twelve-month period ending September 30, 1980, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

Revenues and Expenses

Applicant proposed several adjustments to revenues and expenses as reflected on its comparative income statement in Exhibit XII. The Commission is of the opinion that the adjustments are generally proper and accepted for rate-making purposes with the following modifications:

(1) Applicant proposed an adjustment to insurance expense based on average quoted premium costs. However, the Applicant only submitted one bid to support this adjustment. The Commission is of the opinion that a maximum of \$500 should be allowed for rate-making purposes in that comparable sized utilities are able to obtain insurance within this amount. The Commission further finds that, in order to assure the most economical insurance cost, it would be prudent for Applicant to obtain bids from a minimum of three insurance companies before acquiring insurance.

(2) Applicant proposed to reduce its test year expenses by \$5,029 for refunds paid to its customers which were ordered in Case No. 7550 due to the collection of unauthorized rates. The reduction proposed by Applicant did not include refunds of \$503 which were actually credited against December 1980 bills. Therefore, the Commission has reduced the test year expense by \$5,532 for the entire refunds expensed.

(3) Applicant proposed an adjustment to reflect a 10% increase in its administrative contract. The contract is with Hager Cabinets, who shares rental space, personnel, and telephone expenses with the Applicant and another company. The proposed 10% increase was based solely on estimated inflationary increases

which are not known and measurable. Therefore, the Commission will not allow this adjustment for rate-making purposes.

(4) Applicant proposed to increase interest expense by \$2,048 for additional debt borrowed during the test year. The debt was incurred to make refunds to customers for overcharges through rates not approved by this Commission, to pay operating expenses, and to perform a major repair of the plant. The Commission is of the opinion that the interest expense associated with the funds borrowed to make refunds of \$798 ($\$5,500 \times 14.5\%$) should not be borne by the ratepayers and, therefore, has reduced interest expense by this amount. Also, for rate-making purposes, the interest expense associated with the \$4,500 loan from Hager Cabinets at 11% has been excluded. The Commission is of the opinion that since the Applicant is not earning interest income on notes to the stockholders and no effort has been made by the stockholders to repay these loans, that the interest expense on loans from the stockholders should not be borne by the ratepayers. Therefore, we have reduced interest expense by an additional \$495.

(5) The Applicant did not propose an adjustment for federal and state income taxes. Therefore, the Commission has included \$552 to cover income taxes based on the adjusted test year.

(6) The Commission has adjusted test year revenues by \$3,832 to reflect the normalization of test year end customers and to reflect the rate increase allowed on May 5, 1980, in Case No. 7550. This adjustment was based on data that was submitted by the Applicant on May 11, 1981.

Based on the aforesaid adjustments, Applicant's test period operations appear as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$12,889	\$ 3,832	\$16,721
Operating Expenses	28,924	(12,212)	16,712
Operating Income (Loss)	(\$16,035)	\$16,044	\$ 9
Interest Expense	812	755	1,567
Net Income (Loss)	(\$16,847)	\$15,289	(\$ 1,558)

Revenue Requirements

The Commission is of the opinion that the operating ratio⁽¹⁾ proposed by the Applicant of 88% is fair, just and reasonable and should be used in this case. It will permit Applicant to pay its operating expenses, service its debt and provide a reasonable return to Applicant's owners. Therefore, the Commission finds that Applicant is entitled to increase its rates to produce revenues of \$20,558 or an increase in revenues of \$3,837.

Summary

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates proposed by B & H, Inc., would produce revenues in excess of those found reasonable herein and, therefore, must be denied upon application of KRS 278.030.

The Commission further finds that the rates set out in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for sewage service rendered by Applicant in that it will permit Applicant to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.

⁽¹⁾ Operating Ratio =
$$\frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

IT IS THEREFORE ORDERED that the rates set forth in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for sewage service rendered by B & H, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Applicant are hereby denied.

IT IS FURTHER ORDERED that B & H, Inc., shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 2nd day of July 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katharine Ransdell
Vice Chairman

Jim G. Lantry
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8106 DATED JULY 2,
1981.

The following rates are prescribed for the customers in the area served by B & H, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single-Family Residential	\$13.25
Multi-Family Residential	10.00